Interim report

January – June 2017

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Probi completes integration and ends first half of 2017 with increase in sales and earnings

Highlights and significant events during the second quarter

- Robust growth in sales and earnings despite inventory management at one of the largest customers
- Successful completion of integration process, strengthening of marketing and sales organization and finalization of purchase price allocation at Probi USA
- Several new distribution agreements in EMEA
- Launch of research program targeted at next generation probiotics and prebiotics

Financial overview

MSEK	**H1 2017**	H1 2016	Full-year 2016
Net sales	359.4	160.3	443.5
Net sales growth, local currency, %	118.3%	25.3%	103.2%
Gross margin, %	48.0%	68.8%	60.0%
EBITDA	107.1	59.3	152.6
EBITDA margin, %	29.8%	37.0%	34.4%
Operating profit (EBIT)	79.8	56.0	120.0
Net income	59.3	44.0	101.8
Earnings per share before and after dilution, SEK	5.21	4.83	10.73
Share price on closing day, SEK	580.00	233.98	475.50
Market cap on closing day	6,608.6	2,132.8	5,417.9

See note 5 for definitions of ratios not defined according to IFRS and note 4 for adjustments made to full-year 2016

Invitation to Teleconference

Date: 19 July 2017
Time: 10:00 a.m.
Phone: +46 8 56 64 26 91
Participants from Probi:
Peter Nählstedt, CEO and
Dr. Jörn Andreas, CFO

Contacts

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The presentation is available at www.probi.se and www.financialhearings.com

About Probi

Probi AB is a Swedish publicly traded bioengineering company. The vision of Probi is to help people live healthier lives by delivering effective and well-documented probiotics, with proven health benefits based on scientific research.

Founded by scientists in Sweden in 1991, Probi is a multinational company with four centres of excellence, active in more than 40 markets around the world and holding over 400 patents worldwide. In 2016, Probi had net sales of MSEK 444. The Probi share is listed on Nasdaq Stockholm, Mid Cap. Probi has about 5,000 shareholders.

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Probi´s customers

Probi offers probiotic expertise and partnership all the way from R&D to finished products for companies within the consumer healthcare and food industry.

Probi manufacturing is GMP-certified and produces proven and effective probiotics in custom-made formats with value-adding delivery technologies.

CEO Comments

Robust growth in sales and earnings in the first half of 2017

Probi grew its sales organically with 26% in the first six months of 2017 and, including the acquisition, the growth was 124% over the first half of the preceding year. During the second quarter, we did see an inventory destocking at one of our largest customers, which was offset by strong growth at other customers and in other regions. The EBITDA margin in the second quarter was 26% which was lower than in the preceding year and quarter, but significantly higher than our long-range target of more than 20 % and is explained by a larger portion of sales being contributed by Probi USA.

Completion of integration and building a solid base for future sales

During the second quarter, we achieved key milestones and completed the Nutraceutix integration. The teams, structures and processes are now fully in place and we are well positioned to realize the financial benefits of the transaction.

In parallel, we continue to build and diversify the growth platform. We saw significant growth from new customers and signed three new agreements for distribution in Israel, Oman and Romania. We have also made significant contributions to our future product portfolio by starting a new research program aimed at next generation probiotics.

Expectations for the second half of 2017

While we continue to expect strong growth including the acquired business, we anticipate muted like-for-like trends for the fiscal year 2017. This is driven by both highly challenging comparative sales figures for the second half of 2016 that included large campaign volumes as well as continued destocking at one of our largest customers.

Looking forward, we remain very optimistic about Probi's future and its ability to drive sustainable profitable growth with its expanding customer and product portfolio.

Peter Nählstedt, CEO

Key Developments in the Group

Probiotics remain one of the fastest growing categories in the dietary supplement and consumer healthcare market. The Group saw volume growth across all regions where customers are continuing their launches according to plan, upgrade their formulations and investing in new product development.

In Consumer Healthcare, robust growth in Europe and North America offset a sales decline at one of our largest customers, which decided to reduce its inventory. The destocking is expected to continue in the second half of 2017 despite a favourable development of the end product sales and the overall US marketplace.

In Functional Food, Probi started deliveries of its Probi Digestis® culture to a new client in South Korea. The product which is positioned in the dairy segment will be marketed by Lotte, one of South Korea's largest and most successful organizations. We believe Probi is well positioned to capitalize on its strong offers and application development expertise and to further develop this business area in 2017.

At the end of the second quarter, Probi hosted its annual partner conference. The reputation of Probi as a world-leading probiotic research company has been underlined yet again by the presence of all major customers, the industry's top decision-makers and a new attendance record of 140 participants. Customers from all continents and regions of the world were able take part in an open innovation forum, where the latest in probiotic research and science was presented along with successful launch stories from different markets. Probi's customers take advantage of the forum to learn from each other, thus creating opportunities to replicate key success stories in their home markets.

During the partner conference, Probi announced a new research cooperation with Dr. Karen P Scott of the Rowett Institute, University of Aberdeen. The collaboration with Dr. Scott and her colleagues is Probi's first research program within next generation probiotics, which are microorganisms that have no history of use in consumer products. The leading probiotics that are currently available to consumers are generally drawn from a narrow range of organisms and there is significant untapped potential in microorganisms from the rest of the microbiota. The collaboration aims to isolate and characterize novel human strains that have beneficial health effects on the host. It has the potential to deliver strains for many separate research programs in several different indication areas.

The second quarter also marked the successful completion of the Nutraceutix integration. Probi announced the new organizational structure and strengthened the organization with highly experienced sales and marketing managers with a proved track record in the probiotics industry. The capacity expansion project has progressed into a robust plan identifying specific actions and timelines. Backed by the new structure and the synergy initiatives, Probi is confident of securing the financial benefits of the acquisition.

During the second quarter, the Group also finalized the purchase price allocation (PPA) of the Nutraceutix acquisition. Based on the now final figures and after customary closing adjustments, the purchase price was increased by KUSD 22 to MUSD 106.5. A goodwill of MUSD 33.6 arose from the acquisition which is expected to be deductible for income tax purposes. Additional amortization expenses as a result of the PPA were recognized pro rata temporis in the second quarter and first six months of 2017, respectively. A detailed PPA analysis along with an overview of adjustments recognized in the previous full-year's financial statements are presented in note 4 to the financial statements on page 16.

Sales Development

Current Quarter

Probi's net sales for the second quarter amounted to MSEK 172.0 (73.3), representing a total increase of MSEK 98.7 or 135% compared with the second quarter of 2016. Most of Probi's sales are denominated in foreign currencies, mainly USD and EUR. Based on exchange rates from the preceding year, net sales for the second quarter were MSEK 5.7 lower, corresponding to a net sales growth of 127% year-on-year. Sales from the acquired operations contributed MSEK 85.8 to the Group in the second quarter.

Year-to-Date

During the first six months of the year, Probi's net sales amounted to MSEK 359.4 (160.3). The overall increase was MSEK 199.1 or 124% compared with the first six months of 2016. Based on exchange rates from the preceding year, net sales for the first six months were MSEK 9.4 lower, corresponding to a net sales growth of 118% year-on-year. Sales from the acquired operations amounted to MSEK 157.4 and organic growth to MSEK 41.7, representing a 26% increase over the first six months of the preceding year.

Net Sales by Segment

Probi's business operations are organised in two business segments, each with its own operational management: Consumer Healthcare (CHC) and Functional Food (FF). The Consumer Healthcare segment develops, manufactures and markets Probi's probiotics to pharmaceutical companies and other companies specialised in probiotics and self-care products. Revenue is derived from the sale of goods in bulk and consumer packaging. The acquired operations are included in their entirety in CHC. The Functional Food segment develops food that contains Probi's probiotics in partnership with leading food companies. Revenue mainly comprises royalties from partner-generated sales. No business transactions are conducted between the two segments.

KSEK	**H1 2017**			H1 2016		
	CHC	FF	**Total**	CHC	FF	**Total**
Net sales	341,520	17,867	**359,387**	142,160	18,128	**160,288**
Operating expenses	-266,457	-13,118	**-279,575**	-89,134	-15,150	**-104,284**
Operating profit (EBIT)	**75,063**	**4,749**	**79,812**	**53,026**	**2,978**	**56,004**
Financial net	–	–	**-4,562**	–	–	503
Earnings before income taxes	–	–	**75,250**	–	–	**56,507**

Net sales in Consumer Healthcare during the first half of 2017 rose MSEK 199.4 to MSEK 341.5 (142.2). The acquired operations accounted for MSEK 157.4 of this increase. Sales growth in Consumer Healthcare during the year remained largely attributable to the positive trend in the North American and European market and was driven by continued volume growth of new and existing customers.

Net sales in Functional Food totalled MSEK 17.9 (18.1). During the first six months of 2017, a lower royalty rate in an agreement offset the favourable underlying volume development across all regions and in Sweden, in particular, where ProViva continues to grow moderately in volume.

Net Sales by Region

KSEK	H1 2017	H1 2016	Full-year 2016
Sweden	25,010	25,454	54,905
Rest of Europe	19,188	9,339	22,505
North America	292,124	108,331	337,059
Rest of World	23,065	17,164	29,006
Total	**359,387**	**160,288**	**443,475**

Probi continues to generate strong sales growth in Europe, excluding Sweden, with an increase of 105% compared with the year-earlier period. This was primarily driven by a new agreement signed the year before and favourable underlying volume growth with existing customers. The sales in North America included a contribution of MSEK 157.4 from the acquired operations. Excluding the acquisition, business in North America also showed strong sales growth, with an increase of 24% or MSEK 26.4, compared with the year-earlier period. Sweden decreased 2% compared with the first six months of the preceding year, mainly due to a lower royalty rate with a customer in the Functional Food segment. The increase was 34% in Rest of World.

Earnings

Operating Profit

During the first six months of 2017, operating expenses amounted to MSEK 279.6 (104.3), up 168%, due to the consolidation of the acquired operations in the US and additional amortization charges related to the now final PPA. Cost of goods sold amounted to MSEK 186.9 (50.1), driven by higher sales and additional manufacturing costs in the US operations, where gross margins are structurally lower than under Probi's previous business model. Sales and marketing expenses amounted to MSEK 41.2 (15.4), up 166%, mainly due to additional costs for the US sales organisation and incremental PPA-related amortization. Administrative expenses amounted to MSEK 30.9 (21.7). Research and development expenditure amounted to MSEK 20.9 (17.2), reflecting our continued investment in our long-term innovation capabilities. Integration costs totalling MSEK 1.4 (7.5) are included in operating expenses, allocated between the various functional areas.

Operating profit for the first six months for the Consumer Healthcare business area totalled MSEK 75.1 (53.0), up 42%, representing an operating profit margin (EBIT) of 22% (37%). In the second quarter, integration costs of MSEK 1.4 were included in the segment reporting and entirely reported in the Consumer Healthcare segment.

Operating profit for the Functional Food business area totalled MSEK 4.7 (3.0), representing an operating profit margin (EBIT) of 27% (16%). The increase in operating profit compared to the preceding year is mainly due to lower overhead allocation reflecting the consolidation of the acquired operations.

Consolidated operating profit (EBIT) for the first six months totalled MSEK 79.8 (56.0). Adjusted for currency effects, operating profit (EBIT) totalled MSEK 79.6. Operating profit was charged with integration costs of MSEK 1.4 (7.5).

Financial results

The interest result for the first six months of 2017 was MSEK -3.1 (0) due to increased interest expenses relating to borrowings in connection with the acquisition in 2016.

Exchange gains and losses incurred in connection with the revaluation of the loan, or market valuation and realisation of forward contracts, are recognised in the exchange result from financing activities. A loss of MSEK -1.5 (0,5) arose during the first six months of 2017.

Profit after tax

Profit after tax for the first six months amounted to MSEK 59.3 (44.0). Tax expense was MSEK 15.9 (12.5).

Earnings per share

Earnings per share for the first six months amounted to SEK 5.21 (4.83).

Cash Flow and Financial Position

Capital Expenditure

During the first half of 2017, investments in intangible assets amounted to MSEK 9.6 (10.4), of which MSEK 1.6 (0.7) pertained to patents and MSEK 8.0 (7.9) to capitalised development expenditure. Capitalised development expenditure during the second quarter was related to clinical trials in immune function, digestive health and nutrient absorption. Investments in tangible assets amounted to MSEK 4.5 (0.3).

Change in cash and cash equivalents

Cash and cash equivalents increased MSEK 25.5 (26.4) during the first six months of 2017, amounting to MSEK 128.6 (169.4) at the end of the reporting period. Cash flow from operating activities was MSEK 46.2 higher year-on-year, mainly due to the large increase in sales but adversely affected by an increase of MSEK 11.9 in income taxes paid.

Research and Development

The ambitious clinical program being run in the company is continuing according to plan. Most of the trials, started in 2015 and 2016, will be completed during the second half of 2017 and the first half of 2018. These studies represent both existing and new indication areas and target different age segments. Projects started in 2017 have been developed in accordance with set plans and new projects in bone health and iron uptake are now entering new clinical phases.

At the Probi partner conference held at the end of the quarter, Probi presented promising and commercially viable results from its clinical trials. Probi Digestis® has been proved to reduce the symptom score in IBS patients and Probi Defendum® to reduce the number of common colds by 30%. Both results were obtained in state-of-the-art randomized controlled trials. Probi Digestis® also showed promising results in delaying the onset of celiac disease in children in the large multinational Teddy project. Furthermore, Probi has gained mechanistic new insight into Probi Digestis®. At the conference, Probi also launched its new FastMelt product which is a new tasty formulation of Probi Digestis® and the first market launch is expected in the second half of 2017.

The focus of the research collaboration with Prof Michiel Kleerebezem, at Wageningen University, has now developed to also include Prof Henk Schols, whose expertise includes analytical chemistry and prebiotics. The collaboration is now entering the second phase of the four-year Ph.D. program. During this second phase, combinations of prebiotics and probiotics will be investigated for efficacy. This could lead to new synergistic combination products in the future.

During the second quarter, Probi signed an additional research collaboration with Dr. Karen Scott of the Rowett Institute, University of Aberdeen. Dr. Scott's research focus includes investigating the interactions between different bacterial groups, how populations and bacterial activities change through life, and how they respond to the availability of specific growth substrates. Researchers at the Rowett Institute, including Dr. Scott, have been involved in various projects for many years, profiling the 'healthy' intestinal microbiota, culturing obligate anaerobic bacteria, investigating gene expression patterns and exploring the genomes of bacterial species. This provides a large amount of expertise in anaerobic culture methods and bacterial analysis. The aim of the research collaboration is to identify novel bacterial strains suitable for the development of next generation probiotics. The collaboration with Dr. Scott is part of the Probi Discovery platform, which is aimed at identifying and carrying out long-term research programs with leading academic scientists, allowing for investments in projects that will lead to products over a longer time frame.

Employees

At the end of the period, Probi had 194 (40) employees, of whom 89 (26) were women and 106 (14) men. The average number of employees during the first half of 2017 was 197 (37).

Significant Risks and Uncertainties

The risks and uncertainties to which Probi's operations are exposed are described on pages 47-48 of the printed 2016 Annual Report. At 30 June 2017, no significant changes were considered to have occurred in these risks or uncertainties.

Parent Company

Parent Company operating revenue increased to MSEK 204.6 (160.4). Income for the year was MSEK 62.2 (49.7). The Parent Company's investment in tangible and intangible assets during the first six months amounted to MSEK 10.6 (10.7). In other aspects, please refer to the information for the Group.

Financial Calendar

Interim report Q3, 2017	25 October 2017
Year-end report, 2017	25 January 2018

Assurance by the Board of Directors

The Board of Directors and the CEO provide their assurance that this interim report gives a fair and accurate view of the Parent Company's and the Group's operations, financial position and revenue, and describes the risks and uncertainties facing the Parent Company and the Group.

Lund, 19 July 2017

Jean-Yves Parisot
Chairman of the Board

Anna Malm Bernsten
Board member

Scott Bush
Board member

Charlotte Hansson
Board member

Jan Nilsson
Board Member

Jonny Olsson
Board Member

Peter Nählstedt
CEO

Review Report

Introduction
We have reviewed the interim report for Probi AB (publ) for the period January 1 - June 30, 2017. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review
We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the interim report is not, in all material respects, prepared for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Lund, July 19, 2017

Deloitte AB

Maria Ekelund
Authorized Public Accountant

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Consolidated Statement of Comprehensive Income

KSEK	Notes	Q2 2017	Q2 2016	H1 2017	H1 2016
Net sales		**171,987**	**73,277**	**359,387**	**160,288**
Cost of goods sold	2	-94,772	-22,541	-186,875	-50,084
Gross profit		**77,215**	**50,736**	**172,512**	**110,204**
Sales and marketing expenses		-21,944	-8,819	-41,056	-15,407
Research and development expenses		-9,796	-9,520	-20,877	-17,234
Administration expenses		-14,397	-11,780	-30,851	-21,674
Other operating income		43	46	84	115
Other operating expenses		—	—	—	—
Operating Profit/EBIT		**31,121**	**20,663**	**79,812**	**56,004**
Financial income		74	3	100	5
Financial expenses		-1,617	-5	-3,196	-5
Exchange result financing activities	3	-5,650	1,277	-1,466	503
Financial result		**-7,193**	**1,275**	**-4,562**	**503**
Earnings before income taxes		**23,928**	**21,938**	**75,250**	**56,507**
Income taxes		-7,751	-4,854	-15,929	-12,493
Net income		**16,177**	**17,084**	**59,321**	**44,014**
Other comprehensive income					
Components to be reclassified to net income					
Exchange rate differences resulting from the translation of foreign operations		-38,878	16	-45,556	23
Cash flow hedge (currency hedges)		3,122	—	1,405	—
Income taxes payable on these components		-687	—	-375	—
Sum of other comprehensive income		**-36,443**	**16**	**-44,526**	**23**
Total comprehensive income		**-20,266**	**17,100**	**14,795**	**44,037**
Number of outstanding shares at end of the reporting period		11,394,125	9,115,300	11,394,125	9,115,300
Average number of shares		11,394,125	9,115,300	11,394,125	9,115,300
Earnings per share before and after dilution		1.42	1.87	5.21	4.83

Net income and total comprehensive income are attributable in their entirety to the Parent Company's shareholders. Since the company has no outstanding convertible loans or outstanding warrants, no dilution effect arose.

During 2011, Probi bought back company shares and at the end of the reporting period owned 250,000 treasury shares, corresponding to 2.1% of the total number of shares, with a quotient value of SEK 5.00 per share.

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Consolidated Statement of Financial Position

KSEK	30 June 2017	31 December 2016
Capitalised Development Cost	35,709	29,692
Customer base	328,324	365,048
Technology and other intangible assets	148,620	164,618
Goodwill	287,672	308,802
Property, plant and equipment	37,507	41,490
Deferred tax assets	9,158	8,478
Non-current assets	**846,990**	**918,128**
Inventories	74,498	72,752
Trade receivables	78,181	78,903
Other assets and receivables	24,233	37,036
Cash and cash equivalents	128,586	103,136
Current assets	**305,498**	**291,827**
Total assets	**1.152,488**	**1.209,955**
Total equity	**895,468**	**892,067**
Other non-current liabilities	5,614	5,796
Non-current liabilities	**5,614**	**5,796**
Borrowings	180,693	225,762
Trade payables	40,607	45,570
Other current liabilities	30,106	40,760
Current liabilities	**251,406**	**312,092**
Total liabilities	**257,020**	**317,888**
Liabilities and equity	**1.152,488**	**1.209,955**

See Note 4 for adjustments made to full-year 2016.

Consolidated Changes in Equity

KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	**Total equity**
Opening balance, 1 January 2016	46,827	21,140	-4	–	119,276	**187,239**
Net income	–	–	–	–	44,014	44,014
Other comprehensive income	–	–	-23	–	–	-23
Total Comprehensive Income	–	–	**-27**	–	**44,014**	**43,987**
Dividends	–	–	–	–	-9,116	-9,116
Total transactions with shareholders	–	–	–	–	**-9,116**	**-9,116**
Closing balance, 30 June 2016	**46,827**	**21,140**	**-27**	**0**	**154,174**	**222,114**

KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	**Total equity**
Opening balance, published 31 December 2016	58,221	600,205	21,430	299	218,675	**898,829**
Change	–	–	-42	–	-6,719	-6,761
Opening balance, adjusted 1 January 2017	**58,221**	**600,205**	**21,387**	**299**	**211,955**	**892,067**
Net income	–	–	–	–	59,321	59,321
Other comprehensive income	–	–	-45,556	1,030	–	-44,526
Total Comprehensive Income	–	–	**-45,556**	**1,030**	**59,321**	**14,795**
Dividends	–	–	–	–	-11,394	-11,394
Total transactions with shareholders	–	–	–	–	**-11,394**	**-11,394**
Closing balance, 30 June 2017	**58,221**	**600,205**	**-24,169**	**1,329**	**259,882**	**895,468**

See Note 4 for adjustments made to full-year 2016.

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Consolidated Statement of Cash Flows

KSEK	**H1 2017**	H1 2016
Net income	**59,321**	**44,014**
Adjustments to reconcile net income to cash provided from operating activities		
Income taxes	15,929	12,493
Interest result	2,946	-2
Amortisation, depreciation and impairment of non-current assets	27,263	3,285
Other non-cash expenses and income	17,372	-500
Cash flow before working capital changes	**122,831**	**59,290**
Change in trade receivables and other current assets	9,441	5,856
Change in inventories	-6,487	-3,129
Change in trade payables and other current liabilities	-13,662	-7,816
Income taxes paid	-20,515	-8,658
Cash flow from operating activities	**91,608**	**45,543**
Payments for investing in intangible assets	-9,632	-10,426
Payments for investing in property, plant and equipment	-4,480	-256
Divestments of tangible assets	—	134
Cash flow from investing activities	**-14,112**	**-10,548**
Interest paid	-2,770	-2
Interest received	100	—
Redemption of bank borrowings	-32,063	—
Dividends paid	-11,394	-9,115
Cash flow from financing activities	**-46,127**	**-9,117**
Net change in cash and cash equivalents	31,369	25,878
Effects of changes in exchange rates	-5,919	523
Total changes	**25,450**	**26,401**
Cash and cash equivalents as of 1 January	**103,136**	**143,024**
Cash and cash equivalents as of 30 June	**128,586**	**169,425**

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Summary Parent Company Financial Statements

KSEK	Q2 2017	Q2 2016	H1 2017	H1 2016
Operating revenue	**86,079**	**72,151**	**204,646**	**160,424**
Cost of goods sold	-28,315	-22,692	-67,230	-50,235
Gross profit	57,764	49,459	137,416	110,189
Operating profit/EBIT	**27,325**	**25,507**	**78,299**	**63,381**
Result from financial income and expenses	-5,365	1,273	1,583	502
Income before tax	21,960	26,780	79,882	63,883
Income for the year	**14,938**	**20,850**	**62,236**	**49,743**
Other comprehensive income	2,435	–	1,030	–
Total comprehensive income for the year	**17,373**	**20,850**	**63,266**	**49,743**

KSEK	30 June 2017	30 June 2016	31 December 2016
Fixed assets	1.013,627	56,993	1.000,693
Current assets	161,047	211,698	182,171
Total assets	**1.174,675**	**268,691**	**1.182,864**
Equity	933,642	224,597	881,770
Untaxed reserves	470	555	470
Total long-term liabilities	4,410	4,036	4,036
Current liabilities	236,153	39,503	296,588
Total equity and liabilities	**1.174,675**	**268,691**	**1.182,864**

Notes

1. Accounting and Measurement Policies

The Group

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Accounting Regulations for Groups – January 2017, the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union. This interim report has been prepared in accordance with IAS 34 "Interim Reporting" and the Swedish Annual Accounts Act. The condensed financial statements in the interim report encompass pages 8-15. Disclosures according to IAS 34 Interim Financial Reporting are provided both here and elsewhere in the interim report. ESMA's guidelines on alternative performance measures are applied.

The accounting policies that were applied when these consolidated financial statements were prepared were consistent for all presented periods, unless otherwise stated. The complete accounting policies can be found on pages 58-61 of the printed 2016 Annual Report.

The Parent Company's functional currency is the Swedish krona, which is also the reporting currency for both the Parent Company and the Group. All amounts stated have been rounded off to the nearest thousand SEK, unless otherwise stated.

Amounts and figures in parentheses pertain to comparative figures for the year-earlier period. Amounts are stated in Swedish kronor (SEK), thousands of Swedish kronor (KSEK) or millions of Swedish kronor (MSEK) according to that which is stated.

Parent Company

The Parent Company applies the same accounting policies as the Group, with the exceptions and supplements stipulated in RFR 2 Accounting for legal entities – January 2017. This interim report complies with the Swedish Annual Accounts Act.

Presentation of foreign currency translation

The company has decided to change the presentation of currency effects from transactions that are designated in foreign currencies. Any currency translation resulting from operating activities are recorded within cost of goods sold. In previous reports, currency translation gains from operating activities have been recorded in other revenue and currency translation losses from operating activities in other operating expenses. The change in presentation does not affect operating profit. Historic comparative figures have been adjusted accordingly. The impact arising from currency translation from financing activities remain unchanged and are recorded in the financial result.

Financial Instruments – Hedge Accounting

All derivatives are relating to currency hedging contracts for currency exposure as a result of customer payments in dollars and are initially and subsequently valued at fair value in the balance sheet. When applying hedge accounting, the relationship between the hedging instrument and the hedged item is documented, as well as an assessment of hedge effectiveness, at both the inception of the transaction and on an ongoing basis. Effectiveness refers to the degree to which fair value and cash flow changes in the hedging instrument offset corresponding changes in the hedged item.

If the hedge accounting criteria are met, the effective portion of change in fair value when derivatives held for cash flow hedges are revalued is recognised in other comprehensive income and accumulated in the hedging reserve in equity. The cumulative hedging gain or loss that was recognised in the hedging reserve is reversed to profit or loss in the same period as the hedged cash flow affects profit or loss. Any ineffective portion of the change in value is recognised immediately in profit or loss.

Measurement gains/losses from the derivative financial instrument will be reclassified to sales or cost of goods sold depending on the underlying transaction (trade payables or receivables in foreign currency). After reclassification, hedging gains and losses will be balanced out with the actual currency gains and losses from operating business in cost of goods sold.

Measurement gains/losses are recognised in the financial result insofar as currency risk hedges are used to hedge financial activities.

If the hedging relationship is interrupted but cash flow is still expected to occur, the cumulative change in value is recognised in the hedging reserve until the underlying cash flow for the hedging transaction is no longer expected to occur, and the cumulative change in value recognised in the hedging reserve is immediately transferred to profit or loss.

2. Currency translation from operating activities

The following table shows the exchange result from operating activities that has been recorded within cost of goods sold:

KSEK	**Q2 2017**	Q2 2016	**H1 2017**	H1 2016
Exchange gains operating activities	2,465	1,391	6,580	2,584
Exchange losses operating activities	-1,956	-435	-8,039	-1,669
Exchange result operating activities	**509**	**956**	**-1,459**	**915**

3. Currency translation from financing activities

The following table shows the exchange result from financing activities that has been recorded within exchange result financing activities:

KSEK	**Q2 2017**	Q2 2016	**H1 2017**	H1 2016
Exchange gains financing activities	10,776	1,429	61,289	1,779
Exchange losses financing activities	-16,426	-152	-62,756	-1,276
Exchange result financing activities	**-5,650**	**1,277**	**-1,467**	**503**

4. Purchase Price Allocation Nutraceutix

On 3 October 2016, Probi acquired the Nutraceutix operations and relevant assets in the form of an asset acquisition. As a result of the acquisition, Probi is expected to become a globally leading probiotics group and will significantly strengthen its position in the North American market. The transaction was described in the previous annual consolidated financial statements in the notes under note 5 (Acquisitions). The following summarizes the changes to the previous version.

The final total consideration and purchase price in accordance with IFRS 3 amounts to KUSD 106,473. Based on the now final figures, the purchase price was increased by KUSD 22 and was offset with a prepayment of the estimated purchase price. No more payments were outstanding on the closing date of the reporting period.

The following table summarises the final results of the purchase price allocation with regards to the consideration paid for Nutraceutix and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date:

KUSD	Recognised amounts of identifiable assets acquired and liabilities assumed
Trade receivables	5,079
Inventories	6,605
Intangible assets	58,362
Property, plant and equipment	4,306
Other assets	228
Other liabilities	1,748
Total identifiable net assets	**72,831**
Total consideration transferred	106,473
Goodwill	**33,642**

The fair value of the acquired identifiable intangible assets is KUSD 58,362 and consists of the customer base (KUSD 40,808), technologies (KUSD 10,558) and other intangible assets (KUSD 6,996).

The goodwill of KUSD 33,642 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of Probi and Nutraceutix. The goodwill recognised is expected to be deductible for local income tax purposes but will be neutral on the Group's net income.

With the completion of the purchase price allocation in accordance with IFRS 3, adjustments were recognized in the current and previous full-year's reporting period that relate to the business combination that occurred on 3 October 2016.

The following tables provide information about the effects on the items in the statement of comprehensive income and the statement of financial position from the previous full-year 2016 to evaluate the adjustments resulting from the business combination.

Statement of Comprehensive Income as of 31 December 2016

KSEK	Published	Change	Adjusted
Cost of goods sold	-172,873	-4,538	-177,411
Sales and marketing expenses	-47,131	-7,642	-54,773
Administration expenses	-52,924	1,796	-51,128
Operating Profit/EBIT	**130,349**	**-10,383**	**119,966**
Income taxes	-28,461	3,625	-24,836
Net income	**108,567**	**-6,720**	**101,847**
Other comprehensive income			
Components to be reclassified to net income			
Exchange rate differences resulting from the translation of foreign operations	21,384	-42	21,342
Total comprehensive income	**130,250**	**-6,761**	**123,488**
Earnings per share before and after dilution	11.43	-0.71	10.73

Statement of Financial Position as of 31 December 2016

KSEK	Published	Change	Adjusted
Customer base	–	365,048	365,048
Technology and other intangible assets	46,312	118,306	164,618
Goodwill	799,740	-490,938	308,802
Deferred tax assets	4,554	3,924	8,478
Trade receivables	78,039	864	78,903
Other assets and receivables	35,470	1,566	37,036
Total assets	**1.211,210**	**-1,255**	**1.209,955**
Total equity	**898,832**	**-6,765**	**892,067**
Other non-current liabilities	–	5,796	5,796
Other current liabilities	40,527	233	40,760
Liabilities and equity	**1.211,210**	**-1,255**	**1.209,955**

5. Definition of ratios not defined according to IFRS

The company presents certain financial ratios in the interim report that are not defined according to IFRS. The company believes that these ratios provide valuable supplementary information to investors and company management. Since companies do not all calculate financial ratios in the same way, these ratios are not always comparable with those used by other companies. Accordingly, these financial ratios are not to be considered to replace key ratios as defined according to IFRS.

The following ratios are presented in the interim report:

Operating Profit / EBIT

Operating Profit / EBIT is defined as net income before financial income and expenses and tax for the period.

KSEK	Q2 2017	Q2 2016	H1 2017	H1 2016
Net income	16,177	17,084	59,321	44,014
Income taxes	7,751	4,854	15,929	12,493
Financial result	7,193	-1,275	4,562	-503
Operating Profit / EBIT	**31,121**	**20,663**	**79,812**	**56,004**

EBITDA

EBITDA is defined as Operating Profit / EBIT before depreciation, amortisation and impairment.

KSEK	Q2 2017	Q2 2016	H1 2017	H1 2016
Operating Profit / EBIT	31,121	20,663	79,812	56,004
Depreciation and amortisation	13,600	1,687	27,263	3,285
Impairment	–	–	–	–
EBITDA	**44,721**	**22,350**	**107,075**	**59,289**

EBIT margin

EBIT margin is defined as Operating Profit/EBIT divided by net sales.

EBITDA margin

EBITDA margin is defined as EBITDA divided by net sales.

Gross margin

Gross margin is defined as gross profit divided by net sales.

Market capitalisation at closing day

Market capitalisation at closing day is defined as share price at the end of the period multiplied by number of shares outstanding.

Net sales growth, local currency

Net sales growth, local currency, is defined as net sales for the year translated at the preceding year's exchange rates divided by the preceding year's net sales.

Operating expenses

Operating expenses is defined as the sum of costs of goods sold, sales and marketing expenses, research and development expenses, administration expenses, other operating income and other operating expenses.